



## THE IMPACT OF ORGANIZATIONAL CULTURE ON BUSINESS PERFORMANCE IN STAR CLASS HOTELS OF SRI LANKA

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### Abstract:

The purpose of this study is to investigate the relationship between the organizational culture and business performance in star class hotels of Sri Lanka. The study has utilized data collected from 215 senior managers employed in star class hotel sector using self-administered questionnaire. CFA SEM analysis has performed using AMOS 21 to identify the relationship between the variables examined. The quantitative data analysis revealed there is a significant relationship between all four elements of organizational culture and business performance. The organizational culture was reflected through four dimensions organizational climate, flexibility or the support to change, team work and employee empowerment. This study develops a better understanding of elements of organizational culture and their influence on business performance.

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## 1. Introduction

The influence of organizational culture on business performance is a critical issue for both academic scholars and practicing managers. Organizational culture could be new tendency to assess the business performance in hospitality ventures. Hospitality is a service industry that provides service to the consumers. And will depend on the quality of the man power for its sustainability (Razali et al., 2018). Since service oriented in nature the hotel industry is highly dependent on their employees to create a customer value, offering memorable experiences, attracting new employees while maintaining the existing, for their survival. Organizational culture is an important strategic resource that corporate firms can use to gain a competitive advantage (Zahra, Hayton & Salvato, 2004). The key for the hospitality industry to sustain their competitive advantage in today's market place would be through the provision of the outstanding service quality to their customers by their employees and management (Bharadwaj, 2018). Due to globalization business markets are becoming more and more competitive, but it is obvious that some organizations are more effective than the others (Iljins, Skvarciary & Sarkane, 2015). Many international researchers confirmed that the relationship between employees and organizational culture is the key to the success (Iljins, Skvarciary & Sarkane, 2015). Organizational culture is one of the factors that give impact to employee engagement, job satisfaction work dedication and execution (McBain, 2007) and (Ezrim, 2012). Organizational culture influences how people set their personal and professional goals, perform tasks and administer resources to achieve them (Mushtaq, Fayaz & Tanveer, 2013). While the subject of corporate culture is well studied area, few empirical studies have assessed the impact of organizational culture on business performance (Gordon & Timaso, 1992). This article examines the link between organizational culture and business performance in four star and five-star hotels through survey collected data.

## 2. Literature Review

### 2.1 Hospitality Industry and Organizational Culture

An understanding of organizational culture is considered to be one of the most important ways for shaping employee behavior and which could contribute positively to delivering organizational effectiveness (Lund, 2003). However, the importance of industry, as a factor in defining organizational culture, has received considerably little attention (Tepeci & Bartlett, 2002). The hospitality industry has a unique and a specific culture that can be generalized to multiple organizations that provide accommodation, lodging and / or food services for people when they are away from their homes (Woods, 1989) This is surprising because human involvement is considered an inherent and integral characteristic of the hospitality industry (Yavas & Konyar, 2003). The distinct characteristics of the hospitality

industry make organizational culture an important area of concern for this industry, particularly as organizational culture has the potential to affect employees' behaviors to a noticeable degree (Bavik, 2008). There appears to be a discernible need for developing an understanding of organizational culture in this sector, as well as for developing a means for measuring this construct within the context of this industry (Dawson, Abbott, & Shoemaker, 2011; Tepeci & Bartlett, 2002). It is essential to note that the intangible aspects of service offered by hospitality and tourism organizations are critical in customer satisfaction. (Kandampully, 2007). This is because the main difficulty related to the intangibility of the service is that the customer cannot often see, feel and test these services when they order or buy them (Gronroos, 2007). Labour intensiveness is among the salient characteristics of the hospitality and tourism organizations (Fitzsimmons and Fitzsimmons, 2004). In this study the organizational culture is measured using four major dimensions, flexibility to change, organizational climate, empowerment and teamwork. Organizational climate represents a set of characteristics that describe an organizations that distinguish the organization from others, organizational behaviors relatively enduring and influence the behavior of the people in the organization. (Forehand & Gilmer, 1964). As cited by Datta & Singh (2018), Forehand and Gilmer (1964) defined organizational climate as a set of characteristics that describes an organization, distinguishes it from other organizations, is relatively enduring over time and can influence the behavior of people in it. The empowerment is the organizational atmosphere or the environment that stimulates the skill development and motivates increased contribution to the organizational success. (Jaffee & Scott, 1993) The team work replies on individuals working together in a corporative environment to achieve common team goals through sharing skills and knowledge. (Harris & Harris, 1996)

## **2.2 Hospitality Industry and Business Performance**

Researchers took the view that strong culture can have a major impact on the success of the business due to its pervasive influence throughout any organization. (Kilman, 1985) Extending the research it was further found that the strength of the culture was predictive of short-term performance, when performance was defined with broad indicators like return on assets, return on investment and return on sales. (Dennison, 1984) They therefore postulated that while both a strong culture, and an appropriate culture from the standpoint of content will produce positive results, a combination of both is most powerful. This finding was important as it introduces the concept of fit into culture-performance studies (Gordon and DiTomaso, 1992). There was a relationship between the strength of the corporate culture and organizational performance at least in the short term, but it was not a strong one. In the hotel industry business performance could be viewed in terms of how well stakeholders' expectations are fulfilled (Phillips, 1999).

Improving business performance has been one of the central tenets of management and remains fundamental to organizational success (Neely, 1999). Despite the evanescent view that managers can operate solely with accounting-based indicators, strict financial outcomes remain the dominant measures used. In examining the

dependent variable business performance, we used subjective dimensions regarding growth (three items), efficiency (two items) and profit (three items). Following Koe (2013) growth was assessed by respondents' satisfaction on sales growth, employee growth, market share growth. Efficiency was measured by respondents' satisfaction on return on investment (ROI) and return on equity (ROE). Profit was determined by the respondents' satisfaction on return on sales, profit margin and profit retention.

### 3. Methodology

#### 3.1 Sample

The population of this study was comprised of the senior managers of four star and five-star hotels of Sri Lanka which are registered with Sri Lanka Tourism Development Authority. The overall number of hotels representing the upper star category is 53. These hotels are employing around 600 number of senior managers belonging to both line and staff divisions. A sample of 215 was chosen according to the sample plan to be subjected for the research. The primary data was collected from a Likert scale questionnaire using 215 senior managers from hospitality industry representing four star and five-star hotels. The study was based on primary data. Simple random technique was adapted to collect data from respondents covering the whole island. Collected data was analyzed using Multi group techniques to identify the relationship between Organizational Culture and Business Performance. The deployed software for the analysis was AMOS 21.

#### 3.2 Conceptual Framework

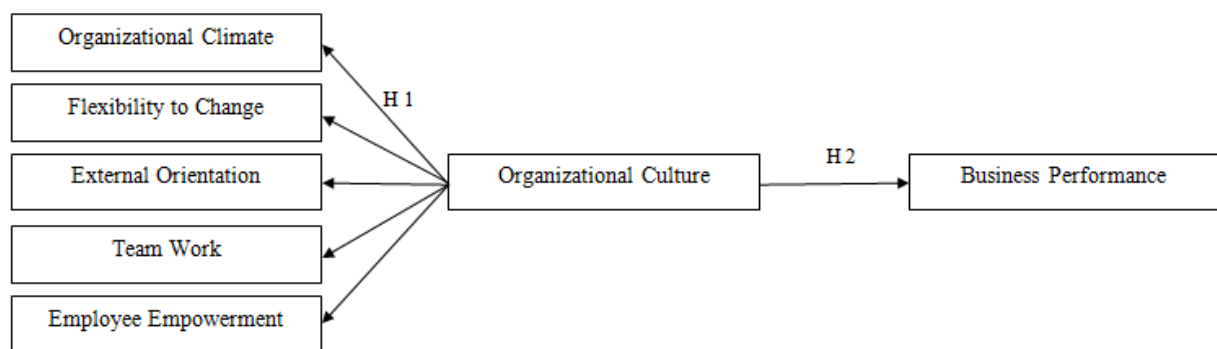


Figure 1: Conceptual framework

#### 3.3 Hypothesis of the Study

Following hypotheses were relevant to the study:

**H01:**Organizational Climate, Flexibility to Change, External Orientation, Team Work and Employee Empowerment are sub dimensions of Organizational Culture.

**H02:**There is a relationship between Organizational Culture and Business Performance.

### 3.3 Analysis

CFA-SEM Analysis technique was used to measure the relationship between composite variables of second order and the dependent variables. Firstly, the individual models were tested for their suitability. The independent variables of first order category namely organizational climate, flexibility to change, external orientation, team work and employee empowerment and the independent variable business performance were subjected for this analysis. As the second step all six variables were combined together to develop the structural model. In both the individual model and the structural model items were dropped during the analysis anticipating meeting the relevant values in indices required to ensure the model fit. Subsequently the final model was developed and tested for the above-mentioned hypotheses.

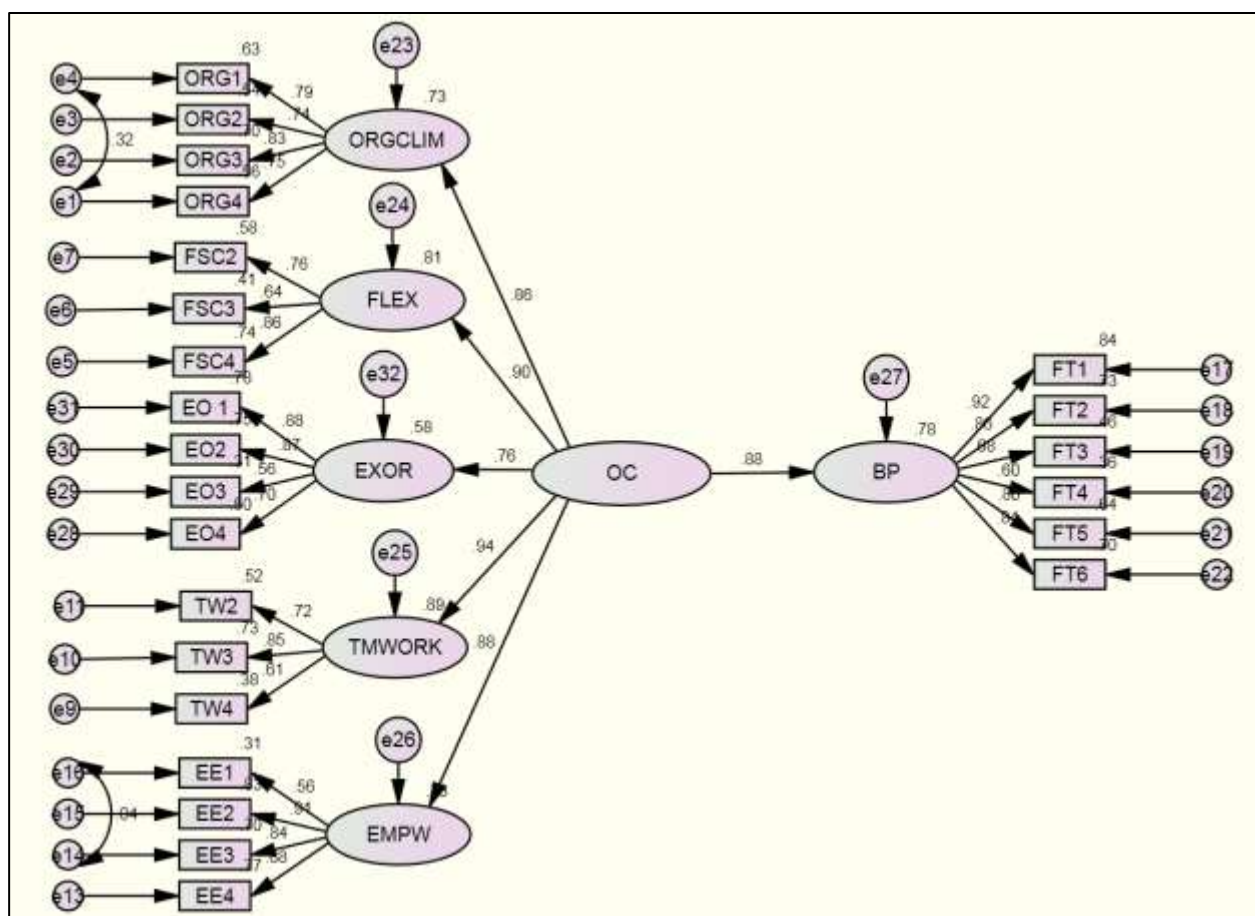


Figure 2: Final Structural Equation Model

### 3. Results

The individual models of dimensions organizational climate, flexibility to change, external orientation, team work and employee empowerment were developed and tested for their model fit. After treating the modification indices all dimensions reached the relevant values. The indices were selected in order to represent three important categories.

**Table 1:** The Model fit indices of dependent and independent variables

Dimension	CMIN/DF	CFI	RMSREA	Comment
Threshold values	5	0.9	0.8	Required level is achieved
Organizational climate	3.257	0.981	0.055	
Flexibility to change	2.776	0.972	0.042	
External orientation	0.972	0.946	0.059	
Team work	2.435	0.924	0.044	
Employee empowerment	3.538	0.981	0.063	
Business Performance	2.822	0.943	0.068	

In the final Structural Equation Model (SEM) the five dimensions are showing a standard beta estimate value towards the organizational culture with high figure. In the relationships p values are 0.000 which is less than the threshold values and are significant. The critical ratios also are above the 1.96 threshold value.

Therefore, hypothesis one is accepted, that depicts the organizational climate, flexibility to change, external orientation, team work and employee empowerment are dimensions of organizational culture.

**Table 2:** Results of Hypothesis 1 testing

Second order variable		First order variable	Standard Beta Estimate	Critical Ratio	P value
Organizational culture	<	Organizational culture	0.856	10.097	0.000
Organizational culture	<	Flexibility to change	0.889	12.277	0.000
Organizational culture	<	Employee empowerment	0.760	Reference point	
Organizational culture	<	Team work	0.943	8.803	0.000
Organizational culture	<	External orientation	0.884	8.799	0.000

In the final Structural Equation Model (SEM) the p value 0.000 is less than the threshold value of 0.05, the relationship is proved to be significant. The critical ratio value 13.034 is greater than the 1.96 threshold value and there is a standard beta estimate value of 0.883 between Organizational culture and Business performance.

Therefore, hypothesis two is accepted, that depicting there is a significant and sizable relationship between organizational culture and business performance.

**Table 2:** Results of Hypothesis 2 testing

Second order variable		First order variable	Standard Beta Estimate	Critical Ratio	P value
Business Performance	<	Organizational Culture	0.883	13.034	0.000

#### 4. Findings

The analysis showed that the path coefficient influence of organizational culture to business performance in upper tier star rated hotels of Sri Lanka has a significant effort. Finding showed that the organizational culture is good then the business performance is better. CFA SEM analysis demonstrates a significant and sizable relationship between organizational culture and business performance in star class hotels of Sri Lanka. By adopting organizational culture in a meaningful way star class hotels in Sri Lanka could deliver a greater outcome. By embracing a more meaningful organizational culture these firms could ensure their business survival and growth in the fiercely competitive tourism markets. To enrich the organizational culture firms could rely on its dimensions organizational climate, flexibility to change, external orientation, team work and employee empowerment. These dimensions are functioning individually from each other, where the firms could adopt different dimensions according to their preference and availability of resources.

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